Secret
No Foreign Dissem

STAFF NOTES:

Middle East
Africa
South Asia

Secret

123
No. 0662/75
April 28, 1975

No Foreign Dissem

Warning Notice
Sensitive Intelligence Sources and Methods Involved

NATIONAL SECURITY INFORMATION
Unauthorized Disclosure Subject to Criminal Sanctions

Classified by 005827
Exempt from general declassification schedule
of E. O. 11652, exemption category:
§ 5B (1), (2), and (3)
Automatically declassified
on: Date Impossible to Determine

MIDDLE EAST – AFRICA – SOUTH ASIA

This publication is prepared for regional specialists in the Washington community by the Middle East - Africa Division, Office of Current Intelligence, with occasional contributions from other offices within the Directorate of Intelligence. Comments and queries are welcome. They should be directed to the authors of the individual articles.

CONTENTS

Apr 28, 1975

Jordan

An Improved Situation

25X

King Husayn is in Washington this week for discussions concerning Jordan's military and economic needs. Husayn's fortunes, and those of his country, have improved markedly over the past year, [redacted]

25X6

The Arab aid that flowed from his action and record foreign exchange earnings from Jordan's major industry--phosphate--will permit Amman to meet easily its expanding defense and development goals during the current year. While the economy is now registering solid gains--production is increasing at an 8-percent annual rate in real terms--further rapid improvement will, to a very large degree, continue to be subject to the vagaries of Arab largesse.

Arab aid to Jordan this year will total over $300 million. Included in this figure are Khartoum payments of approximately $79 million, Rabat aid totaling $175 million, and a special Saudi subvention of $57 million to cover "urgent and necessary requirements." US budget and military support of $180 million in 1975 will push total transfer payments to $500 million. Strong world demand for phosphate fertilizers, coupled with price increases of more than 400 percent over the last two years, has boosted foreign exchange holdings. Delays in completing a new rail link to the port of Aqaba will limit export shipments to 2.4 million tons in 1975, but earnings from phosphates will jump to $150 million this year compared with $60 million last year.

Expenditures are up this year, largely because of purchases under a four-year plan to modernize the military

(Continued)

establishment. The import bill will be more than offset, however, by foreign currency payments to Jordan. In fact, Jordan's foreign exchange holdings by the end of the year probably will reach at least $400 million.

Although there are potential trouble spots, the outlook for the economy remains favorable. Jordan faces hard bargaining with the Tapline company on crude oil deliveries, but Saudi officials are likely to intercede in Jordan's favor. Riyadh is expected to press the company to soften its demands that future deliveries be priced at the going commercial rate, instead of the concessionary prices Amman has been paying.

Exports may pose a problem. Jordan is seeking to diversify its exports by developing its potash and copper resources, but Amman will continue to look to increased sales of phosphates for most of its export earnings for the next few years. Although completion of the rail link to Aqaba late this year will help, additional storage and loading facilities at the port may not be completed in time to meet the goal of exporting 5 million tons by 1976. Slow progress in increasing export handling, combined with a paucity of planning and marketing skills, suggests that Amman may achieve more modest levels of growth than it plans.

The continued preoccupation of King Husayn and Prime Minister Rifai with Jordan's military needs makes it likely that economic development will continue to run a poor second in the race for government funds. 25X

[redacted] Husayn is convined that another Arab-Israeli war is imminent, and he is obsessed with acquiring a modern air defense system. He would prefer to get the expensive US Hawk missile, but failing that,

(Continued)

he might turn to Western Europe or, according to some reports, borrow or buy Soviet missiles from Syria. He feels duty-bound to spend much of the aid money committed by his Arab neighbors to improve Jordan's "front-line" military capabilities.

Although Husayn continues to rely on the US for his essential foreign support, he and Rifai have recently been spreading their bets. In the past two months Jordan has:

--Developed a more intimate relationship with Syria than ever before, including wide-ranging economic and trade agreements and active political and military consultations.

--Entertained several Soviet economic and political delegations and lavishly welcomed Romanian President Ceausescu.

--Approved requests for diplomatic representation by Yugoslavia, East Germany, and North Korea.

--Rushed to congratulate Prince Sihanouk and promise recognition of his "government of national union."

Some Jordanian officials profess concern about the extent and direction of Jordan's widening involvement in foreign affairs. They fear the country will be drawn into politically dangerous entanglements abroad when it should be concentrating on internal developments. Field-grade officers are said to be worried that, if the King accepts Soviet air defense weapons from Damascus, Syrian and perhaps Soviet advisers, may be stationed in Jordan and then the country might automatically be drawn into any new war with Israel.

Husayn has done his homework well, however, and Rifai too has paid attention to building domestic

(Continued)

support for the government. Periodic meetings have been held in the provinces to explain development projects and advertise beneficial government programs. The King, mindful of last year's army mutiny, spent the early part of this month in visits to army units, reknitting personal ties with the troops. In marked contrast to his perfunctory reception at an army celebration a year ago, Husayn this time was nearly mobbed by soldiers eager to demonstrate their devotion. (SECRET/NO FOREIGN DISSEM)

25X1A

[redacted]

Israel

Economy Still Booming

The Israeli economy has continued to boom during the early months of this year, testifying to the weakness of austerity measures imposed late last year. The rising import bill caused by sustained high domestic demand will have to be offset by increased foreign exchange earnings, aid, spending of foreign exchange reserves, or implementation of tough austerity measures.

A leading government economist forecasts that Israel's gross national product will grow about 4 percent in real terms this year, down from 1974 but higher than the target set earlier this year. Despite the ban on nonessential construction activities, housing starts were up in both January and February and building supplies and cement reportedly are in short supply. Government fears that unemployment would become a problem have not materialized; labor exchanges have been able to fill only 10 percent of requests for workers.

Other measures to cool the economy, such as the devaluation of the Israeli pound last November, have not been forcefully implemented. Moreover, export earnings grew only 5 or 6 percent in real terms in the first months of 1975 compared with a 15-percent goal set by Tel Aviv.

A spurt in capital transfers from abroad and reduced import speculation since November have so far forestalled an erosion of Israel's balance-of-payments position; in fact, reserves grew by $500 million--to a total of about $1.5 billion--during that period. As long as the world economy remains soft, however, such capital movements are unlikely to continue to cover the rising import bill. (UNCLASSIFIED)

25X1A [redacted]